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-15 Years-
1979-1994



Sevenson

Environmental Services, Inc.

1993 Annual Report

1994

Midfield Terminal Site
Pittsburgh, PA

Scobell Chemical Site
Rochester, NY

Metro-Container Site
Trainer, PA

RCRA
Closures
Westfield, NY

Tyson's Dump Site
Upper Marion
Township, PA

RCRA
Impoundment Closure

Oil Refinery Site
Containment Measures
Cody, WY

RCRA
Storage Area Closures
Poughkeepsie, NY

Aldex Site
Council Bluffs, IA

* Krysovaty Farm Site
Three Bridges, NJ

The Sealand
Restoration Site
Lisbon, NY

RCRA Surface
Impoundment Closure
Birmingham

Impoundment
Closures
Massena, NY

Picillo Farm Site
Covington, LA

RCRA
Closures
Covington, LA

Removal of Coal Tar Soils
Port Stanley, Ontario,
Canada

Pollution Control
Services
Oswego, NY

Montclair Radium Site
Montclair, NJ

Madison Wire Site
West Seneca, NY

RCRA
Impoundment Closure
Baton Rouge, LA

Sinclair Refinery Site
Wellsville, NY

Remediation
and Decontamination
Niagara Falls, NY

PCB Decontamination
Commerce, CA

RCRA
Closures
Commerce, CA

Remediation
Niagara Falls, NY

Duva Property Site
City, NY

Remediation Site
Niagara Falls, NY

Casey Road DDT Site
Porked River, NJ

GHI Creek Remediation
Niagara Falls, NY

Picatinny Arsenal
Picatinny, NJ

Clothier Site
Granby, NY

Roebbing Steel Site
Roebbing, NJ

Pine and
Tuscarora Road Site
Niagara Falls, NY

Douglasville
Disposal Site
Douglasville, PA

Remediation
Niagara Falls, NY

Drum Excavation
Brentwood, TN

New Lyme Landfill Site
Mansfield, OH

Jersey Sewage
Authority
Sludges
New York City, NJ

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Remediation
Plant
Indianapolis, IN

Radioactive
Debris Removal
Rochester, NY

Drum Excavation
Staten Island, NY

Reactor Vessel Cleanout
Ironton, OH

Mercury Refining Site
Colon, NJ

Love Canal
Niagara Falls, NY

Multiple Chromium Sites
Kew-Forest, NY

Northern Ontario Site
Kew-Forest, NY

Marathon Battery Site
Kew-Forest, NY



Financial Highlights

Corporate Profile

Sevenson provides a comprehensive range of services for the remediation of sites and facilities contaminated by hazardous materials. Founded as a general construction business in 1917, Sevenson entered the remediation business in 1979 when it became the principal contractor for the remediation of the Love Canal site, Niagara Falls, New York. Headquartered in Niagara Falls, New York, the Company and its subsidiaries also maintain offices in Pittsburgh and Philadelphia, Pennsylvania; Baton Rouge, Louisiana; Buffalo, New York; and Chicago, Illinois. Present full-time employees number 179.

Trading in Sevenson's common stock is reported on the NASDAQ National Market System. (Symbol SEVN)

For the Years Ended December 31
(in Thousands, Except Per Share Data)

1993 1992 1991

INCOME STATEMENT

Revenue	\$69,176	\$69,010	\$48,337
Net Earnings from Continuing Operations	\$ 6,775	\$ 5,576	\$ 5,091
Earnings Per Share	\$ 1.07	\$.87	\$.78
Weighted Average Common Shares Outstanding	6,322	6,447	6,550

BALANCE SHEET

Cash and Cash Equivalents	\$26,352	\$24,231	\$23,181
Working Capital	\$52,592	\$45,386	\$38,099
Total Assets	\$71,766	\$64,505	\$57,137
Long-Term Debt	\$ 2,000	\$ 2,229	\$ 2,003
Stockholders' Equity	\$57,920	\$51,152	\$47,843

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Annual Message to Stockholders



To Our Stockholders

In 1978 national attention focused on a modest suburban neighborhood of Niagara Falls, New York where chemical wastes buried decades earlier had begun to seep into the yards and basements of houses. Reacting to the public outcry, government authorities declared an emergency in the "Love Canal" neighborhood and in early

1979 let the first of a series of contracts to stop the seepage of wastes. The following year Congress enacted Superfund, the event by which most mark the beginning of the environmental remediation business.

In 1994 our Company marks its 15th anniversary in the environmental remediation business. At the time the Company received that first Love Canal contract in 1979, the term "environmental remediation" had not been coined and the Company did not know to what extent environmental remediation would become a business. Nevertheless, the Company, then a 60 year old general contracting business, made the decision to pursue cleanup work at the Love Canal in the belief that other sites and business would follow. Through the years, with each new project, the Company built a national reputation for competence, reliability and integrity. Now, 15 years and over 400 environmental remediation projects later, the wisdom of that original decision is reflected in the completion of another successful year.

The Company's net earnings grew again in 1993, up 27% to \$1.07 a share, despite no increase in revenues. The Company's ability to produce a higher net profit on the same revenues is a tribute to the skills and resourcefulness of our engineering and project management staffs. Drawing on their experience and know-how, they developed new operational approaches or modified existing ones to reduce costs and shrink schedules. On the Company's largest projects, where the opportunities for producing savings through new or improved approaches are greatest, the success achieved by these staffs was outstanding.

The Company's inability to achieve revenue growth in 1993 was a disappointment. As I wrote in last year's letter, bidding and proposal activity reached record levels in 1992. This level of activity did not recur in 1993. In fact, through the first half of 1993, bidding and proposal activity was substantially lower than the prior year. This decline was observed throughout our industry and was attributed to policy uncertainties and a

lessening of enforcement initiative by the federal government due to the change of administrations. In the second half of the year activity increased, allowing the Company to end the year with a record backlog of \$43 million, but too late to raise 1993 revenues. I expect the level of bidding and proposal activity to continue to improve at least through the first half of 1994.

Another factor affecting revenues was the decline in demand for the Company's industrial services with attendant pressure on margins. Rather than take unprofitable business, the Company accepted a decline in industrial services revenues. Because improvement in this market in the short term was not expected, the Company took steps to reduce overhead expense in the industrial services division.

The most important event for the Company in 1993 was the receipt of a \$40 million contract for remediation work at the Marathon Battery Superfund Site in Cold Spring, New York. This project is twice the size of the largest contract ever completed by the Company. The project is located on the east bank of the Hudson River, about 50 miles above New York City, in the Catskill Mountain region. Former battery manufacturing operations resulted in heavy metal contamination of the site and an adjacent marsh and cove. The cleanup plan calls for contaminated soils and sediments to be removed, treated on-site and shipped off-site for disposal in a permitted landfill. Work on the project began in June and will continue through the summer of 1994.

The Marathon Battery project is significant because of its size, demonstrating that the Company has established itself as capable of successfully performing larger projects. It is also significant because of the nature of the cleanup work involved. At Marathon the Company is employing a broad array of methods and technologies which will have application to future projects. The Company's experience at Marathon will be invaluable in competing for these opportunities. Finally, Marathon Battery is significant for the recognition the Company is receiving within the industry and beyond for its performance on such a difficult, environmentally important project.

The Company's success at Marathon Battery has already been followed by the selection of the Company to perform a \$40 million cleanup at the Lipari Superfund Site in Pitman, New Jersey. This project also involves the removal and on-site treatment of contaminated soils from a marsh and lake. Work will begin this spring and be completed in 1995.

Another notable 1993 event was the Company's purchase of the operating assets of MAECORP Inc., a Chicago-based environmental remediation firm, for just over \$1 million. The assets purchased were principally field equipment and contracts. Most of the field equipment was immediately put to use on projects. The contracts were completed, producing over \$800,000 in revenue. Also purchased were a patented process and related equipment for the chemical treatment of wastes

containing heavy metals such as lead. This technology is currently being used at the Marathon Battery project. In all, I am very pleased with this acquisition. The Company acquired field equipment and contracts at a favorable price and also obtained technology in an area where the Company previously relied on subcontractors.

Upon the acquisition of the MAECORP assets, the Company hired several former employees of that firm and opened an office in the Chicago area. Most of those hired are familiar with the acquired metals treatment technology, having worked on a number of projects where the technology was successfully applied. The Chicago office will pursue projects in the mid-west as well as projects involving the technology.

Laboratory facilities at the Company's wholly-owned subsidiary, Waste Stream Technology Inc., were again expanded in 1993. The expansion was undertaken to accommodate analytical testing requirements of the Marathon Battery project. After a thorough evaluation, the Company chose to bring the majority of the laboratory analysis work for Marathon into Waste Stream's laboratory for cost and scheduling reasons. The tight schedule which the Company set for itself at Marathon, completing in about 18 months a project for which two and a half years were allowed, required close cooperation between the project and laboratory, and prompt reporting of results which no outside laboratory could guarantee.

The Company's commitment to safety was again rewarded in 1993. The Company's OSHA recordable and lost workday incidence rates were the lowest in the Company's history. This important achievement is a tribute not just to our health and safety staff but to our entire organization. All share in responsibility for keeping safety the highest priority throughout the Company. All know that however commendable their safety achievements have been, only a commitment to further improvement is acceptable.

Looking forward, the question is when will the full potential of the environmental remediation business be realized and the halting progress experienced so far cease? An examination of some history and current forces affecting the industry may be instructive.

The enactment of the Comprehensive Environmental Response, Compensation and Liability Act — Superfund — in 1980 began the national program to identify and clean up hazardous waste sites. At that time, the \$1.6 billion appropriated was thought adequate to fund the program. By 1986 Congress recognized that the problem was much greater than originally expected and another \$9 billion was appropriated by the Superfund Amendments and Reauthorization Act of 1986. A further reauthorization in 1990 added \$5.1 billion. In 1994 Superfund is again up for reauthorization, under a cloud of criticism. After 14 years and over \$10 billion in total federal Superfund outlays, fewer than 20% of the over 1200 sites on the National Priorities List — the list

of the country's worst hazardous waste sites — have been cleaned up. The debate concerning reauthorization will certainly focus on how to make Superfund more productive in cleaning up sites. Some needed reforms will doubtlessly result. However, the debate itself may be as important as its outcome by simply drawing attention to Superfund's unacceptable rate of progress.

Public policy from another source is also affecting the market for environmental remediation services. The Securities and Exchange Commission is enforcing more stringent accounting rules concerning disclosure of environmental liabilities. Greater disclosure of environmental liabilities will bring further attention to contaminated sites and should lead to earlier cleanup action. When companies subject to these rules discover that estimates of cleanup costs are frequently exaggerated, they will realize that funding an actual cleanup can be better for their balance sheets than carrying these estimates as liabilities. For example, in the case of both the Marathon Battery and Lipari Landfill projects, estimates ranged from over \$50 million to as high as \$70 million, but each will be completed by our Company for under \$40 million.


An improving industrial economy should also be a positive factor in 1994. Cleanup work is often undertaken in connection with plant expansions or modifications. Strong industrial capital spending will affect business positively.

Our Company is in a favorable position for 1994. On January 1, 1994 our backlog stood at a record \$43 million, the previous record being \$34.5 million in 1991. In addition, later in January the Company was selected as contractor for the \$40 million Lipari Landfill Superfund site cleanup. With the current high level of bidding and proposal activity, the Company is in the best position it has ever been in this early in a year.

When we entered the environmental remediation business in 1979, we did so looking toward the future. While our hopes were high, little was known of the hazardous waste problem at that time, limiting our view of the future. Now, our optimism is based on prospects which have never been better. For this we are grateful to our customers, stockholders and employees who have made it possible for us to achieve so much these last 15 years and to be in this position today.

I look forward to reporting our Company's further progress to you through 1994 and beyond.

Cordially,



Michael A. Ellis
President and
Chief Executive Officer

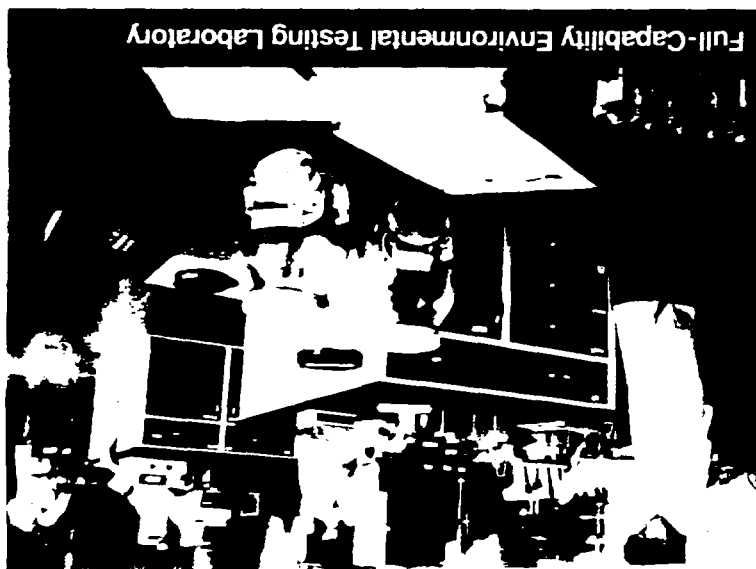
February 7, 1994



Slurry Wall Installation



Waste Handling



Full-Capability Environmental Testing Laboratory



Enclosed Area Entry Preparation



Waste Excavation



Employee Training

**Years —
Environmental
Radiation
Services**



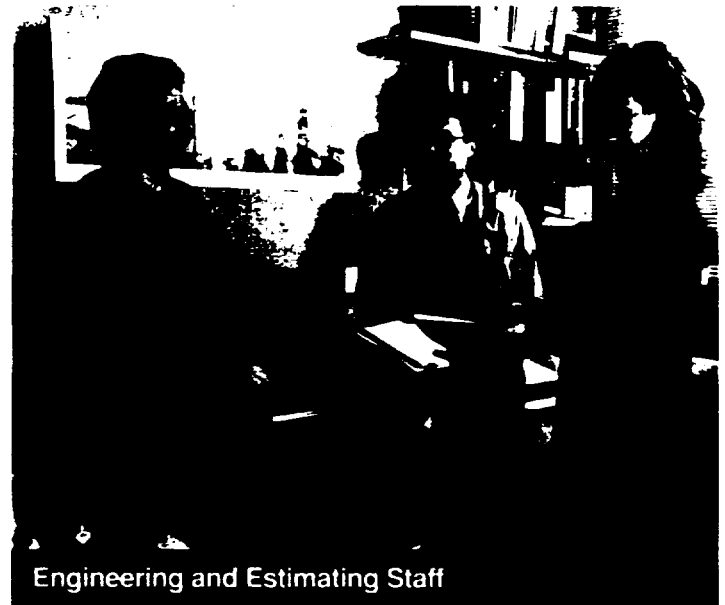
Technical Support



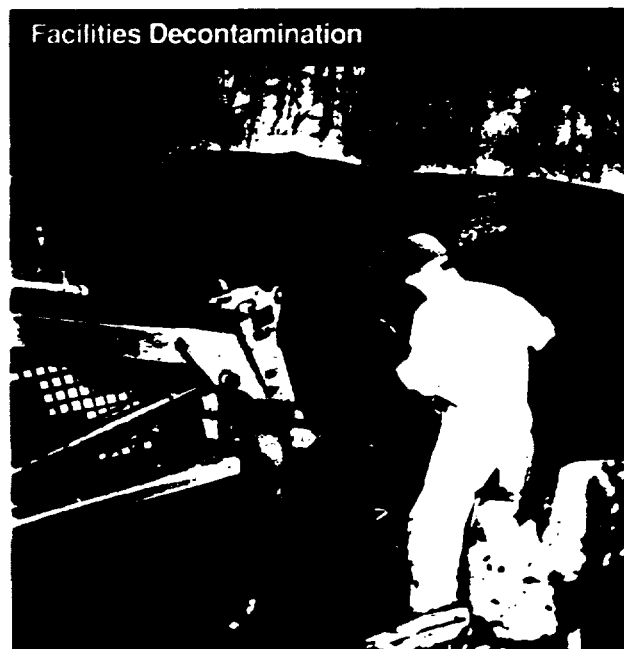
Landfill Capping Operation



**Field Safety
Technician**



Engineering and Estimating Staff



Facilities Decontamination



Marathon Battery Superfund Site Cold Spring, New York

The 50-acre Marathon Battery Superfund Site is located on the east bank of the Hudson River, 50 miles north of New York City in the Catskill Mountain Region. The site's environmental significance is enhanced by its proximity to historic sites such as West Point which is directly across the Hudson. Cadmium and other heavy metals from a closed battery manufacturing plant are the site's principal contaminants.

The Marathon Battery Site consists of three areas:

- 1** The former battery plant grounds including a pit containing sediments stored from an earlier clean-up effort. Work in this area involves excavation of contaminated soils and the stored sediments.
- 2** A cove contaminated by plant run-off and wastewater discharge. Approximately 55,000 cubic yards of contaminated sediment will be dredged from the cove.
- 3** A similarly-contaminated marsh containing approximately 15,000 cubic yards of cadmium-contaminated sediments. After removal of vegetation, specially adapted amphibious excavators and dump trucks are used to remove the sediments.

All excavated soil, sediments and dredgings are treated on-site prior to transport off-site by railroad for disposal at a licensed landfill. Treatment processes employed include clarification, mechanical dewatering, and chemical fixation. All water produced is filtered before discharge. Treated solid materials are loaded on rail cars after testing confirms that treatment has achieved federal and state non-leaching standards. When the project is completed, approximately 100,000 cubic yards of material will have been treated.

Special features of the project include construction of a temporary 1,900-foot dike between the cove and marsh areas. A Company innovation incorporated in the dike was a "water structure," a 6-foot high by 12-foot wide flexible plastic tube filled with water which was placed atop the entire length of the crushed stone base of the dike to bring the dike's crest to design level. Another feature was the construction of a temporary railroad siding into the site. The siding was among a number of measures taken to minimize truck traffic and other impacts on the nearby village and residents of Cold Spring.

The government estimated that the Marathon Battery project would cost over \$70 million and take 48 months. The Company will complete the project for under \$40 million and in less than 18 months.



Treatment Operation



Temporary Dike Between Marsh and Cove Areas

Plant Area Excavation

Area
1

On-Site Laboratory

Area
3

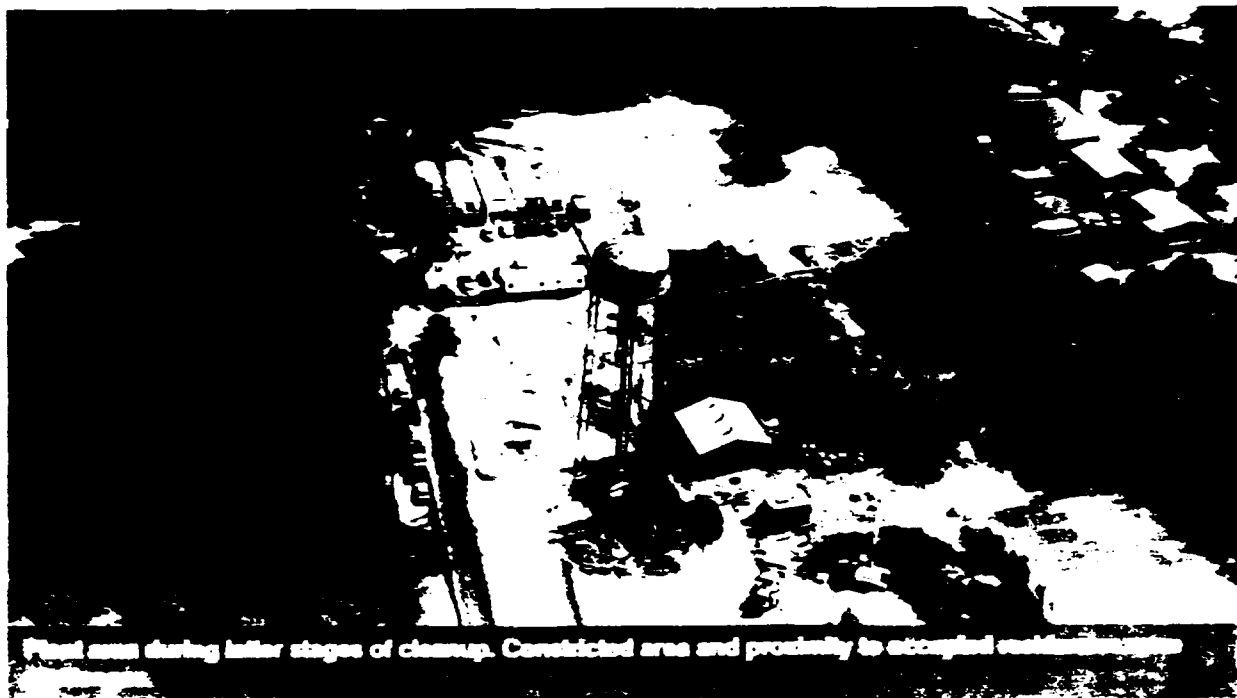
Sampling Marsh Area Soil

Marsh Area Excavation



Marathon Battery Superfund Site

Cold Spring, New York





Financial Review

ENVIRONMENTAL SERVICES INC. AND SUBSIDIARIES

Five Year Selected Financial Data (Dollars in Thousands, Except Per Share Amounts)

	Years Ended December 31				
	1993	1992	1991	1990	1989
INCOME STATEMENT DATA:					
Continuing Operations:					
Revenue	\$69,176	\$69,010	\$48,337	\$75,018	\$52,061
Earnings from Operations	9,798	7,646	6,347	10,998	9,250
Earnings from Continuing Operations	6,775	5,576	5,091	7,964	6,741
Earnings (Loss) from Discontinued Operations	—	(220)	—	—	(84)
Net Earnings	6,775	5,356	5,091	\$ 7,964	\$ 6,656
Earnings (Loss) Per Share:					
Continuing Operations	\$ 1.07	\$.87	\$.78	\$ 1.21	\$ 1.10
Discontinued Operations	—	(.04)	—	—	(.01)
	\$ 1.07	\$.83	\$.78	\$ 1.21	\$ 1.09
BALANCE SHEET DATA:					
DECEMBER 31					
Working Capital	\$52,592	\$45,386	\$38,099	\$38,687	\$32,362
Total Assets	71,766	64,505	57,137	69,717	46,351
Long-Term Debt (including current maturities)	2,000	2,229	2,004	2,304	2,811
Stockholders Equity	57,920	51,152	47,843	43,815	35,845

Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

The following table sets forth certain items of selected consolidated financial information as a percentage of revenues for the periods indicated. This table and the subsequent discussion should be read in conjunction with the selected financial information and the Consolidated Financial Statements, summary of accounting policies and Notes to Consolidated Financial Statements of the Company included elsewhere in this Annual Report.

	Years Ended December 31,		
	1993	1992	1991
Revenues	100.0%	100.0%	100.0%
Gross Profit	24.5	20.1	24.9
Selling, General &			
Administrative Expenses	10.3	9.0	11.8
Earnings from Operations	14.2	11.1	13.1
Earnings Before Income			
Taxes	15.7	12.7	16.5
Earnings from Continuing			
Operations	9.8	8.1	10.5

1993 Versus 1992 — Revenues for 1993 at \$69 million were equal to 1992 revenues. After a robust 1992, bidding and proposal activity declined in the first half of 1993, keeping revenues flat with the prior year. The decline in bidding and proposal activity was attributed to policy uncertainties and a lessening of enforcement initiative at the federal government associated with the change of administrations. As a result, approximately 52% of 1993 revenues was earned on contracts obtained in 1992 or earlier. Bidding and proposal activity picked up in the last months of the year raising backlog at year end to a record \$43 million.

Gross profit as a percentage of revenue was higher in 1993 at 24.5% versus 20.1% in 1992. The increase was due in part to higher profit margins on larger contracts. Also, profit margins were higher on projects which were started in 1992 or earlier and completed during 1993. As these projects proceeded, improvements in operating efficiencies and the favorable resolution of contingencies increased profit margins.

Indirect costs increased 13% to \$3.5 million from \$3.1 million in 1992. Most of the increase occurred in depreciation and amortization expense. During the year the Company acquired certain assets, including contracts, from the bankruptcy estate of a Chicago-based remediation company. The portion of the purchase price ascribed to contracts (approximately \$350,000) was written-off in the fourth quarter when those contracts were completed.

Selling, general and administrative expenses increased 14% to \$7.1 million from \$6.2 million in 1992. The single largest reason for this increase was the opening of an office in the Chicago area. Personnel expenses, generally, both direct compensation and benefits, were higher at all locations. Offsetting these increases were lower estimating expenses due to lower bidding and proposal activity and lower legal and bad debt expenses.

Interest income decreased to \$1.2 million from \$1.3 million due to lower interest rates.

The effective tax rate was 37.5% versus 36.2% for 1992. The higher rate was due to higher earnings from operations as a proportion of pretax income versus tax exempt interest and dividend income.

1992 Versus 1991 — Revenues for 1992 were \$69 million, a 43% increase over 1991 revenues of \$48.4 million. The increase in revenues was due to a return of more favorable business conditions in 1992 after a difficult 1991. More new projects were available and competition for new projects eased. As a result, the value of contracts obtained by the Company during the year increased 63%, to \$58,077,740 from \$35,581,586 in 1991.

Gross profit as a percentage of revenue was lower in 1992 at 20.1% versus 24.9% in 1991. Profit margin was reduced by lower margins on several large projects in progress during the third and fourth quarters. These projects were either bid or negotiated at prices based on lower, albeit acceptable, profit margins due to competitive or customer considerations. Also affecting the comparison to 1991 margin is the fact that 1991 contract margins were higher due to greater utilization of Company-owned equipment (a result of lower volume), the timing of profit recognition on some contracts, and other factors.

Indirect costs decreased 7% to \$3.1 million from \$3.3 million in 1991. The decrease was due principally to lower expenses for equipment repair and maintenance and for insurance, which were offset in part by higher depreciation expense and costs associated with efforts to acquire a landfill (See Liquidity and Capital Resources).

Selling, general and administrative (SG&A) expenses increased 9% to \$6.2 million from \$5.7 million in 1991. SG&A expenses increased generally across all categories. Estimating expense was up due to a higher level of bidding and proposal activity. Personnel and bad debt expense increases also contributed to the increase.

Interest income decreased 30% to \$1.3 million from \$1.8 million in 1991 due to lower interest rates.

Income taxes as a percentage of pretax earnings increased to 36.4% from 36.0% reflecting a lower proportion of tax-exempt interest and dividend income in pretax earnings versus 1991.

In October, the Company discontinued operations of its wholly-owned subsidiary, Severson Extraction Technology, Inc. Due to poor operating results, management determined that the solvent extraction technology which that subsidiary had purchased earlier in the year was not commercially viable. The technology had been tested at a site with encouraging early results, but later failed to reach cost and production levels necessary for profitable operation. The Company consequently elected to exercise its right under the terms of the purchase agreement to tender the technology back to its developers and to write-off its entire investment in the technology. Also during the fourth quarter, the Company recognized a recovery from operations which had been discontinued in 1989. The net effect of the two foregoing developments was an after-tax loss from discontinued operations of \$219,841.

(Continued on p. 12)

Fluctuations in Quarterly Results — The commencement or completion of projects within a particular quarter, the seasonal, weather-affected nature of the Company's business, the spending decisions of major customers, and the timing of regulatory decisions relating to projects, among other factors, may cause the Company's results to vary significantly from quarter to quarter and from year to year. From time to time, the Company has experienced losses for the first quarter and modest profitability for the second quarter as a result of its inability to perform site remediation work due to unfavorable weather conditions. The Company believes that these variations will continue in the future. The following selected financial data have been derived from unaudited interim financial statements which, in the opinion of the Company, include all adjustments (consisting of normal recurring accruals) necessary to fairly present the information for such periods. Quarterly results of operations are not necessarily indicative of results to be achieved for full fiscal years.

1993 Quarter	Revenues	Earnings From Continuing Operations
(In thousands)		
1st	\$11,088	\$ 563
2nd	\$16,287	\$1,494
3rd	\$20,601	\$2,475
4th	\$21,200	\$2,243

1992 Quarter	Revenues	Earnings From Continuing Operations
(In thousands)		
1st	\$12,035	\$ 630
2nd	\$15,001	\$1,369
3rd	\$21,875	\$1,795
4th	\$20,099	\$1,782

Inflation — As most of the Company's projects have a duration of less than one year from contract commitment to completion, inflation has not had a significant impact on its business.

Liquidity and Capital Resources — As of December 31, 1993, the Company had working capital of \$52.6 million, including \$45.8 million in cash and cash equivalents and marketable securities. The Company expects that its existing funds and cash generated from operations will be sufficient to meet its working capital and capital investment needs in the foreseeable future.

The Company has available from a bank, a \$5,000,000 unsecured line of credit. As of December 31, 1993 there were no outstanding borrowings under this line.

Pursuant to a stock repurchase program announced on December 20, 1990 and expanded in August, 1992, the Company has repurchased 278,500 shares of its Common Stock at a cost of \$3,013,929.



Consolidated Statements of Earnings

FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

In thousands, except per share data)

	Years ended December 31,		
	1993	1992	1991
REVENUES:			
Contracts (Note 13)	\$ 68,949	\$ 68,664	\$ 47,961
Other	227	346	376
	<u>69,176</u>	<u>69,010</u>	<u>48,337</u>
COSTS AND EXPENSES:			
Cost of contracts:			
Direct costs	48,761	52,048	32,972
Indirect costs	3,485	3,075	3,310
Selling, general and administrative	7,132	6,241	5,708
	<u>59,378</u>	<u>61,364</u>	<u>41,990</u>
EARNINGS FROM OPERATIONS	<u>9,798</u>	<u>7,646</u>	<u>6,347</u>
OTHER:			
Interest income	1,228	1,268	1,806
Interest expense	(186)	(143)	(195)
	<u>1,042</u>	<u>1,125</u>	<u>1,611</u>
EARNINGS BEFORE INCOME TAXES	<u>10,840</u>	<u>8,771</u>	<u>7,958</u>
INCOME TAXES (Note 9)	<u>4,065</u>	<u>3,195</u>	<u>2,867</u>
EARNINGS FROM CONTINUING OPERATIONS	<u>6,775</u>	<u>5,576</u>	<u>5,091</u>
DISCONTINUED OPERATIONS (Note 10):			
Loss from operations and disposition, net of income taxes	0	(220)	0
NET EARNINGS	<u>\$ 6,775</u>	<u>\$ 5,356</u>	<u>\$ 5,091</u>
EARNINGS PER SHARE (Note 1):			
Earnings from continuing operations	\$1.07	\$0.87	\$0.78
Loss from discontinued operations	0.00	(0.04)	0.00
Net earnings	<u>\$1.07</u>	<u>\$0.83</u>	<u>\$0.78</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>6,321,500</u>	<u>6,446,700</u>	<u>6,550,387</u>

See notes to consolidated financial statements.



Consolidated Balance Sheets

SEVENSON ENVIRONMENTAL SERVICES INC. AND SUBSIDIARIES

(In thousands, except share data)

	December 31,	
	1993	1992
Assets		
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	\$26,352	\$24,231
Marketable securities (Note 3)	19,408	13,153
Accounts receivable (Note 4)	14,631	15,937
Material and supply inventories, at cost	227	269
Costs and estimated earnings on contracts in progress in excess of related billings (Note 5)	2,071	1,190
Prepaid and refundable income taxes	28	69
Prepaid expenses and other current assets	721	960
TOTAL CURRENT ASSETS	63,438	55,809
OTHER ASSETS:		
Cash value of life insurance	1,407	1,135
Other assets	123	296
	1,530	1,431
PROPERTY AND EQUIPMENT (Notes 1 and 6):		
Land	199	199
Buildings and improvements	2,126	2,032
Construction and field equipment	7,673	7,497
Vehicles	2,914	2,446
Office furniture and equipment	1,231	897
	14,143	13,071
Less accumulated depreciation	7,345	5,806
TOTAL PROPERTY AND EQUIPMENT	6,798	7,265
TOTAL ASSETS	\$71,766	\$64,505

See notes to consolidated financial statements.

	December 31,	
	1993	1992
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Accounts payable:		
Current	\$ 6,402	\$ 6,530
Retentions	537	419
Compensation, payroll taxes and withholdings	188	281
Other current liabilities	834	766
Amounts billed in excess of costs and estimated earnings on contracts in progress (Note 5)	2,217	1,475
Income taxes	668	723
Notes payable (Note 7)	0	229
TOTAL CURRENT LIABILITIES	10,846	10,423
DEFERRED INCOME TAXES (Notes 1 and 9)	1,000	930
NOTES PAYABLE (Note 7)	2,000	2,000
CONTINGENCIES (NOTE 14)		
STOCKHOLDERS' EQUITY (Notes 1, 8 and 12):		
Common Stock, \$.10 par value:		
Authorized 12,000,000 shares,		
Issued 1,654,650 and 1,640,400 shares	165	164
Class B Common Stock, \$.10 par value:		
Authorized 8,000,000 shares		
Outstanding 4,945,350 and 4,959,600 shares	495	496
Additional paid-in capital	24,075	24,075
Retained earnings	36,295	29,520
	61,030	54,255
Treasury stock (278,500 shares Common Stock, at cost)	(3,014)	(3,014)
	58,016	51,241
Cumulative translation adjustment	(96)	(89)
TOTAL STOCKHOLDERS' EQUITY	57,920	51,152
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$71,766	\$64,505



Consolidated Statements of Cash Flows

SEVENSON ENVIRONMENTAL SERVICES, INC. AND SUBSIDIARIES

(In thousands)

	Years ended December 31.		
	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	\$70,189	\$66,179	\$62,974
Cash payments to subcontractors, suppliers and employees	(57,763)	(56,689)	(55,264)
Interest received	1,295	1,217	1,631
Interest paid	(186)	(205)	(196)
Taxes paid	(4,053)	(2,437)	(3,573)
Tax refunds received	44	531	27
Net cash provided by operating activities	9,528	8,596	5,599
CASH FLOWS FROM INVESTING ACTIVITIES:			
Marketable securities activity	(6,284)	(8,232)	(1,443)
(Purchase) sale of long-term investments	0	4,133	(4,133)
Capital expenditures	(1,173)	(988)	(1,831)
(Increase) decrease in notes receivable	219	10	(206)
Proceeds from sale of fixed assets	69	31	49
Net cash used in investing activities	(7,169)	(5,046)	(7,564)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments of debt	(229)	(128)	(300)
Acquisition of treasury stock	0	(1,955)	(1,059)
Payments of policy loans	0	(326)	
Net cash used in financing activities	(229)	(2,409)	(1,359)
EFFECT OF EXCHANGE RATE CHANGES ON CASH ...	(7)	(91)	(5)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,121	1,050	(3,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	24,231	23,181	26,510
CASH AND CASH EQUIVALENTS, END OF YEAR	\$26,352	\$24,231	\$23,181

See notes to consolidated financial statements.

	Year ended December 31,		
	1993	1992	1991
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net earnings	\$6,775	\$ 5,356	\$ 5,091
Loss from discontinued operations	0	220	0
Earnings from continuing operations	6,775	5,576	5,091
Adjustments to reconcile:			
Depreciation and amortization	1,657	1,541	1,398
Increase in cash surrender value of life insurance	(272)	(135)	(85)
Deferred income taxes	70	103	200
Unrealized gain on marketable securities	(4)	0	(45)
(Gain) loss on sale of marketable securities	33	71	(7)
Marketable securities received in exchange for performance on contract	0	(483)	(1,183)
(Gain) loss on sale of fixed assets	(8)	28	15
Change in assets and liabilities affecting cash flow:			
Accounts receivable	1,295	(3,006)	18,266
Material and supply inventories	42	(7)	29
Costs and estimated earnings on contracts in progress in excess of related billings	(881)	676	(757)
Prepaid and refundable income taxes	41	729	(790)
Prepaid expenses and other current assets	178	(8)	(37)
Other assets	(52)	2	10
Accounts payable	(10)	3,000	(13,882)
Compensation, payroll taxes and withholdings	(93)	112	(578)
Other current liabilities	68	(57)	(77)
Amounts billed in excess of costs and estimated earnings on contracts in progress	742	72	(1,880)
Income taxes	(55)	382	(89)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$9,526</u>	<u>\$ 8,596</u>	<u>\$ 5,599</u>

SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES

The Company purchased vehicles and equipment in exchange for notes payable amounting to \$352,975, during the year ended December 31, 1992.



Consolidated Statements of Stockholders' Equity (Note 8)

SEVENSON ENVIRONMENTAL SERVICES, INC. AND SUBSIDIARIES

Years Ended December 31, 1993, 1992 and 1991 (In thousands, except share data)

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Cumulative Translation
Balance, January 1, 1991	\$161	\$499	\$24,075	\$19,073	\$ 0	\$ 7
Acquisition of 88,600 treasury shares (Note 8)	0	0	0	0	(1,059)	0
Conversion of 17,000 shares Class B Common Stock to Common Stock (Note 8)	2	(2)	0	0	0	0
Translation adjustment	0	0	0	0	0	(5)
Net earnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,091</u>	<u>0</u>	<u>0</u>
Balance, December 31, 1991	163	497	24,075	24,164	(1,059)	2
Acquisition of 189,900 treasury shares (Note 8)	0	0	0	0	(1,955)	0
Conversion of 12,400 shares Class B Common Stock to Common Stock (Note 8)	1	(1)	0	0	0	0
Translation adjustment	0	0	0	0	0	(91)
Net earnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,356</u>	<u>0</u>	<u>0</u>
Balance, December 31, 1992	164	496	24,075	29,520	(3,014)	(89)
Conversion of 14,250 shares Class B Common Stock to Common Stock (Note 8)	1	(1)	0	0	0	0
Translation adjustment	0	0	0	0	0	(7)
Net earnings	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,775</u>	<u>0</u>	<u>0</u>
Balance, December 31, 1993	<u>\$165</u>	<u>\$495</u>	<u>\$24,075</u>	<u>\$36,295</u>	<u>(\$3,014)</u>	<u>(\$96)</u>

See notes to consolidated financial statements.



Notes to Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The Company specializes in hazardous waste site remediation. All subsidiary companies are wholly owned and are included in the consolidated financial statements of the Company. All significant intercompany accounts and transactions have been eliminated.

Description of the Business — Sevenson Environmental Services, Inc. was incorporated in the State of Delaware on February 27, 1989. It is the successor, as a result of a merger completed March 23, 1989, to a corporation of the same name incorporated in New York in 1977. The Company provides a comprehensive range of field services for the remediation of sites and facilities contaminated by hazardous materials. The Company's site remediation field services include on-site treatment, containment, and excavation and removal of contaminated materials. Other Company services include the decontamination, demolishing, and closing of deactivated industrial facilities, industrial cleaning and decontamination services to operating plants and refineries. The remediation process consists of three phases, namely, site assessment, remedial design, and site remediation. The third phase is the field implementation of the site remediation plan and is the phase in which the Company participates.

The Company provides its services in the United States and Canada. The Company's customers include major industrial corporations and government agencies. Because of the nature of the Company's business, which involves large, discrete contracts often completed within a year, customers that account for a significant portion of revenue in one year may represent an immaterial portion of revenue in subsequent years. Management believes that the loss of the United States government as a customer would have a material adverse effect on its business.

Related Party Transactions — The businesses of SCC Contracting, Inc. ("SCC"), a construction company owned by the five principal shareholders of the Company, and the Company have been, and are expected to continue to be, operated out of office facilities owned by the Company and both businesses have used, and are expected to continue to use, to varying degrees, the Company's office personnel, yard and shop facilities, computer resources, equipment and services of the same management and other personnel.

A formal agreement between the businesses was adopted to provide guidelines for the performance and pricing of intercompany services and use of facilities. This services agreement specifies various formulae to determine charges to be made for the provision of services and facilities and equipment usage. The formulae are intended to fairly allocate expenses between the businesses. During the years ended December 31, 1993, 1992 and 1991, expenses allocated to SCC amounted to approximately \$260,000, \$379,000 and \$558,000, of which \$28,000 and \$34,000 remained outstanding as of December 31, 1993 and 1992, respectively.

Segment Information — The business operations of the Company are concentrated in one segment.

Property, Equipment and Depreciation — Property and equipment are carried at cost, and are being depreciated using straight-line methods over the estimated useful lives of the related assets.

Cash and Cash Equivalents — Cash and cash equivalents represent demand deposits with banks, certificates of deposit held by banks or financial institutions, money market funds and commercial paper, all having original maturities of three months or less. The Company places its temporary cash investments with high credit quality financial institutions.

Method of Accounting for Contracts — The accompanying consolidated financial statements have been prepared using the percentage-of-completion method of accounting and, therefore, take into account the costs, estimated earnings and

revenue to date on contracts not yet completed. The amount of revenue recognized is not related to the progress billings to customers.

On all projects, the amount of earnings recognized at statement date is that portion of the total estimated contract earnings that the cost expended bears to the anticipated final cost, based on current estimates of cost to complete the project.

Contract costs include all direct labor and benefits, materials unique to or installed in the project, subcontractor costs, outside vendor equipment rental and other direct costs including shop and yard charges.

As contracts extend over one or more years, revisions in cost and earnings estimates during the course of the project are reflected in the accounting period in which the facts which require the revision become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements.

Operating Cycle — Assets and liabilities related to contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets, as they will be liquidated in the normal course of contract completion, although this may require more than one year.

Selling, General and Administrative Expenses — These expenses are charged to operations as incurred and are not allocated to contract costs.

Income Taxes — The Company provides for deferred taxes on all temporary differences (principally depreciation and prepaid expenses) which are transactions reported for tax purposes in periods other than for financial reporting purposes.

Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes." The cumulative effect of this change in accounting for income taxes is not significant.

Foreign Operations — All assets and liabilities of operations outside the United States are translated

into U.S. dollars at exchange rates in effect at the end of the period. Operating results are translated at a weighted average of exchange rates in effect during the year. Net unrealized gains and losses on translation of foreign currency financial statements are recorded in stockholders' equity, as a cumulative translation adjustment, and will be included in income only upon sale or liquidation of the underlying asset. Realized gains and losses resulting from completed transactions are included in net earnings. Foreign operations are not considered a significant component of the Company's business.

Earnings Per Share — Earnings per share are based on the weighted average number of shares of common stock outstanding during the respective year. Outstanding stock options have been considered in the earnings per share calculation when their effect is dilutive.

Reclassifications — Certain reclassifications of 1992 and 1991 balances have been made to conform with classifications used in 1993.

2. FORMATION OF SUBSIDIARIES

On February 25, 1993 the Company formed a new wholly-owned subsidiary, Severson Environmental Services of PA, Inc. to engage in hazardous waste remediation for sites in Pennsylvania.

On June 8, 1992, the Company formed a wholly-owned subsidiary, Severson Extraction Technology, Inc. to engage in technology relating to the remediation of soil contaminated with hazardous substances through the use of solvents. In October 1992 the Company's management, as discussed in Note 10, decided to discontinue this portion of its operations, and has subsequently dissolved the subsidiary.

3. MARKETABLE SECURITIES

	(In Thousands) December 31,	
	1993	1992
Marketable Securities:		
Common stocks (market value; 1993-\$1,409, 1992-\$2,337)	\$ 953	\$ 1,978
Preferred stock (market value; 1993-\$258, 1992-\$169)	250	175
Municipal bonds inventory	15,921	8,834
Mutual funds	2,284	2,166
	<u>\$19,408</u>	<u>\$13,153</u>

Common and preferred stocks are stated at the lower of cost or market. Municipal bonds and mutual funds are stated at cost, which approximates market. The Company will be adopting SFAS No. 115 "Accounting For Certain Investments in Debt and Equity Securities" in 1994, the effect on earnings is not expected to be significant.

4. ACCOUNTS RECEIVABLE

	(In Thousands) December 31,	
	1993	1992
Current estimates	\$13,215	\$14,185
Retentions	1,368	1,692
Due from related companies, officers and employees	173	89
Other	1	11
	<u>14,757</u>	<u>15,977</u>
Less allowance for doubtful accounts	108	40
Total	<u>\$14,631</u>	<u>\$15,937</u>

The Company anticipates that substantially all retentions will be collected within the next year.

5. CONTRACTS IN PROGRESS

	(In Thousands) December 31,	
	1993	1992
Accumulated expenditures on contracts	\$53,007	\$66,137
Estimated earnings thereon	17,581	18,912
	<u>70,588</u>	<u>85,049</u>
Less applicable progress billings	70,734	85,334
Total	<u>\$ (146)</u>	<u>\$ (285)</u>

The contracts are shown in the accompanying consolidated balance sheets as follows:

	(In Thousands) December 31,	
	1993	1992
Costs and estimated earnings on contracts in progress in excess of related billings	\$ 2,071	\$ 1,190
Billings on contracts in excess of costs and estimated earnings	(2,217)	(1,475)
Total	<u>\$ (146)</u>	<u>\$ (285)</u>

6. LINE OF CREDIT ARRANGEMENTS

Sevenson Environmental Services, Inc. has two lines of credit available from a bank. The first is a \$20,000,000 line for the issuance of stand-by letters of credit with a term of two years or less. This commitment is secured by a perfected first security interest in managed liquid assets held by the Company at specified percentages available against market value. The second is a \$5,000,000 line to be utilized for working capital, the issuance of stand-by letters of credit and the acquisition or lease of equipment. Draws for working capital will be on demand, unse-

cured except for any excess value in the assigned liquid assets securing the \$20,000,000 line and bear interest at the bank's prime rate. Draws for stand-by letters of credit have terms of 180 days or less. Draws for the acquisition or lease of equipment are limited to a total of \$1,500,000 and are on a term basis, secured with the specific equipment financed, and bear interest at the bank's prime rate plus one-half percent. There are no compensating balance arrangements in connection with these lines. As of December 31, 1993 there were no outstanding borrowings under these lines.

7. NOTES PAYABLE

Notes payable represent amounts owing to the former shareholders of a construction company purchased by the Company in 1981. Interest on these notes accrues at the rate of 9% per annum. These notes must be repaid within six months after each former shareholder's death. Repayment has been funded by insurance on the life of each former shareholder.

8. CAPITAL STOCK

The authorized capital stock of the Company consists of 12,000,000 shares of Common Stock, \$.10 par value, 8,000,000 shares of Class B Common Stock, \$.10 par value, and 1,000,000 shares of Preferred Stock, \$.10 par value. The Company has issued 1,654,650, 1,640,400 and 1,628,000 shares of Common Stock and 4,945,350, 4,959,600 and 4,972,000 shares of Class B Common Stock as of December 31, 1993, 1992 and 1991, respectively. No shares of Preferred Stock have been issued. Holders of Common Stock are entitled to

elect 25% of the Board of Directors so long as the number of outstanding shares of Common Stock is at least 10% of the total number of outstanding shares of both classes of Common Stock.

Except for the election or removal of Directors as described above and except for class votes as required by law, holders of both classes of common stock vote as a single class on all matters, with each share of Common Stock having one vote per share and each share of Class B Common Stock having ten votes per share.

Cash or property dividends to the holder of common stock may be paid as follows:

- (i) cash or property dividends may be declared and paid on the Common Stock without being declared and paid on the Class B Common Stock; and
- (ii) no cash or property dividend may be declared and paid on the Class B Common Stock unless a dividend at least 10% greater in amount per share is paid concurrently on the Common Stock.

Dividends paid in shares of Common Stock or Class B Common Stock may be paid as follows:

- (i) shares of Common Stock may be paid to holders of shares of Common Stock or, if there is no Common Stock outstanding, to holders of Class B Common Stock, and shares of Class B Common Stock may be paid to holders of Class B Common Stock; and
- (ii) the same number of shares shall be paid in respect of each outstanding share of Common Stock and Class B Common Stock.

At the option of the holder of record, each share of Class B Common Stock is convertible at any time into one share of Common Stock. During 1993, 1992 and 1991, 14,250, 12,400 and 17,000 shares, respectively, of Class B Common Stock were converted into 14,250, 12,400 and 17,000 shares of Common Stock.

The authorized Preferred Stock is available for issuance from time to time in the future at the discretion of the Board of Directors of the Company, without stockholder approval. The Board of Directors has authority to prescribe for each series of Preferred Stock it establishes, the relative ranking with other series, the voting rights, if any, the dividend rate, the redemption and liquidation rights, the conversion rights, if any, and any other rights, preferences, qualifications, limitations or restrictions of the particular series.

The principal stockholders have entered into a Stockholders' Agreement pursuant to which they have a pro rata right of first refusal to purchase shares of Class B Common Stock proposed to be sold or disposed of by any of them to persons other than family members or executive officers of the Company and their family members, so long as such persons are approved by a majority in interest of the holders of Class B Common Stock. To the extent the rights of first refusal are not exercised, such rights may be assigned to the Company. Transferees take their shares of Class B Common Stock subject to the Stockholders Agreement. If the right of first refusal is not exercised, the party proposing to dispose of Class B Common Stock must, prior to the disposition, convert such shares into shares of Common Stock.

The Class B stockholders are parties to a Voting Agreement pursuant to which all shares of Class B Common Stock are to be voted in accordance with the majority vote, except in situations in which there exist certain conflicts of interest. The Voting Agreement is for a term of ten years and is subject to renewal.

In November of 1990, the Board of Directors approved a plan to repurchase up to 200,000 shares, or three percent of its Common Stock. In August 1992, the Board of Directors increased the number of shares to 300,000, or 5% of its Common Stock. As of December 31, 1993 the Company had repurchased a total of 278,500 shares for \$3,013,929.

9. INCOME TAXES

The provision for income taxes is comprised of the following:

(In Thousands)			
Year ended December 31,			
	1993	1992	1991
Currently payable (refundable):			
Federal	\$2,970	\$2,285	\$1,935
State	1,025	847	735
Canadian	0	0	(3)
	<u>3,995</u>	<u>3,092</u>	<u>2,667</u>
Deferred:			
Federal	60	80	165
State	10	23	45
Canadian	0	0	(10)
	<u>70</u>	<u>103</u>	<u>200</u>
Total	<u>\$4,065</u>	<u>\$3,195</u>	<u>\$2,867</u>

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

(In Thousands)			
Year ended December 31,			
	1993	1992	1991
Provision based on statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal tax benefit	6.3	6.5	6.5
Tax-exempt interest and dividends	(2.9)	(4.3)	(5.5)
Canadian taxes	0.0	(0.1)	0.0
Other	0.1	0.3	1.0
Total	<u>37.5%</u>	<u>36.4%</u>	<u>36.0%</u>

Deferred taxes relating to temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes of operations is as follows:

	(In Thousands)		
	Year ended December 31,		
	1993	1992	1991
Depreciation	\$ (51)	\$107	\$198
Prepaid expenses	134	0	0
Bad debts	(25)	0	0
Other	12	(4)	2
Total	<u>\$ 70</u>	<u>\$103</u>	<u>\$200</u>

As discussed in Note 1, the Company adopted SFAS No. 109 as of January 1, 1993. The cumulative effect of this change in accounting for income taxes is not significant. Prior years' consolidated financial statements have not been restated to apply the provisions of SFAS 109.

The Company and its domestic subsidiaries file a consolidated U.S. Federal income tax return. Such returns have been audited and settled through the year 1988.

Discontinued operations for the year ended December 31, 1992 is presented in the consolidated statements of earnings net of related income tax credits of \$75,000.

10. DISCONTINUED OPERATIONS

In October 1992 the Company adopted a plan to discontinue operations of its wholly-owned subsidiary, Severson Extraction Technology, Inc., which was formed in June 1992. Provisions totaling \$300,000 have been made for write-down of assets to net realizable value. Operating revenue from this subsidiary amounted to \$425,000 for the year ended December 31, 1992. Final net liabilities of the discontinued operations, totaling \$1,101, which consist of payables and other miscellaneous liabilities in excess of cash and

receivables, are reported on the balance sheet as "Other Current Liabilities."

In addition, during 1992 the Company received \$200,000 as a recovery of funds from operations which had been discontinued in 1989.

Operating results for discontinued operations for the year ended December 31, 1992 were:

Operating revenue	\$625,000
Earnings before taxes	5,000
Income taxes	2,000
Net earnings from operations	3,000

11. PENSION PLANS

The Company makes contributions to industry-wide pension and welfare funds for union employees. Other eligible employees participate in Company-sponsored defined contribution plans for which contributions are made at the rate of 7.0% of defined compensation up to \$57,600 and then 10.5% thereafter. No contribution will be calculated on compensation in excess of \$235,840.

Total pension expense for the years ended December 31, 1993, 1992 and 1991 amounted to \$1,486,000, \$992,000 and \$502,000, respectively, including \$409,000, \$376,000 and \$321,000, respectively, applicable to the Company-sponsored plans.

In addition, the Company has a profit-sharing plan covering most regular employees. The amount of contribution, if any, is at the discretion of the Board of Directors, and is not to exceed the maximum amount deductible for income tax purposes. Contributions of \$180,000, \$160,000 and \$140,000 were made for the years ended December 31, 1993, 1992 and 1991, respectively.

12. INCENTIVE STOCK PLAN

Effective March 1, 1989, the Company adopted the Severson Environmental Services, Inc. 1989 Incentive Stock Plan. The Plan is administered by the Compensation Committee of the Board of Directors and no member of the Committee may participate in the Plan, except that non-employee Directors, who may be

members of the Committee, will receive a non-discretionary option for 3,000 shares of Common Stock on the later of thirty business days after the date of their election to the Board. During 1989, the three non-employee Directors received non-discretionary options to purchase up to 3,000 shares of Common stock at a price of \$19.75. These options will expire in 1999. The Plan authorizes the Committee to grant to key employees, as it sees fit, incentive stock options, nonqualified stock options, stock appreciation rights and restricted stock. During 1989, one key employee received an option to purchase up to 3,000 shares of Common Stock at a price of \$16.50. This option will expire February 1, 1999. No incentive stock options may be granted after March 1, 1999. Up to 100,000 shares of Common Stock are available for issuance under the Plan.

Incentive stock options may be granted with durations of no more than ten years from the date of grant and the option price per share of incentive and non-qualified stock options and stock appreciation rights may not be less than the fair market value of the Common Stock at the time the option is granted.

As of December 31, 1993 certain key employees have been granted various options to purchase shares of Common Stock. The total number of shares granted under these options at December 31, 1993 is 98,000, of which 69,200 shares are currently exercisable. No options were exercised as of December 31, 1993. These options expire ten years from the date the options were granted, and are subject to forfeiture if certain employment requirements are not met.

The following summarizes incentive stock option activity for the three years ended December 31, 1993:

	Shares	Price Ranges Per Share
Outstanding January 1, 1991	47,500	\$11.00
Cancelled	(2,500)	\$11.00
Outstanding December 31, 1991 ..	45,000	\$11.00
Granted	44,500	\$12.00
Cancelled	(1,000)	\$11.00-\$12.00
Outstanding December 31, 1992 ..	88,500	\$11.00-\$12.00
Granted	12,000	\$14.00
Cancelled	(2,500)	\$11.00-\$12.00
Outstanding December 31, 1993 ..	<u>98,000</u>	<u>\$11.00-\$14.00</u>

The Plan also provides for the award of shares of the Company's Common Stock subject to restrictions on disposition ("Restricted Stock"). While the restrictions remain in effect, the participant cannot sell or transfer the shares of Restricted Stock, but he or she has the other rights of a stockholder, including the right to vote and to receive dividends. Restricted Stock awarded under the plan is subject to the terms and conditions of the Plan and to other terms and conditions as the Committee specifies. The participant will forfeit to the Company his Restricted Stock if his employment with the Company and its subsidiaries terminates for any reason except death, prior to the expiration of the restrictions.

No Restricted Stock has been awarded under the Plan.

13. MAJOR CUSTOMERS

The Company's two largest customers in 1993 accounted for 29% and 23% of 1993 revenues. The Company's four largest customers in 1992 accounted for 29%, 11%, 10% and 10% of 1992 revenues. The Company's two largest customers in 1991 accounted for 24% and 11% of 1991 revenues. Due to the nature of the Company's business, major customers fluctuate from year to year. No other customer accounted for more than 10% of total revenues in any of the three years in the period ended December 31, 1993.

14. CONTINGENCIES

The Company is a defendant or plaintiff in various claims and lawsuits arising in the normal course of business. The ultimate outcome of the suits cannot presently be determined and no provision for loss or gain, if any, that may result has been made in the accompanying consolidated financial statements. It is the opinion of management and its counsel that there will not be any material adverse effects on the Company's consolidated financial statements as a result of these actions.

15. BACKLOG

The following is an analysis of the Company's backlog of signed contracts at December 31, 1993, 1992 and 1991:

	(In Thousands)		
	1993	1992	1991
Backlog,			
January 1	\$31,888	\$32,438	\$34,450
New contracts	71,676	58,078	35,581
Revenues from			
construction contracts	(71,006)	(70,667)	(48,654)
Contract			
adjustments, net	11,066	12,039	11,061
Backlog,			
December 31	<u>\$43,644</u>	<u>\$31,888</u>	<u>\$32,438</u>

16. QUARTERLY RESULTS

Unaudited summarized results for each quarter in 1993, 1992 and 1991 are as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1993:				
Revenues	\$11,088	\$16,287	\$20,601	\$21,200
Gross margin	2,268	4,004	5,429	5,229
Provision for income taxes	255	890	1,505	1,415
Net earnings	563	1,494	2,475	2,243
Net earnings per share	0.09	0.24	0.39	0.35
1992:				
Revenues	\$12,035	\$15,001	\$21,875	\$20,099
Gross margin	2,286	3,405	4,088	4,108
Provision for income taxes	255	825	1,049	1,066
Earnings from continuing operations	630	1,368	1,795	1,783
Loss from discontinued operations	0	0	0	(220)
Net earnings	630	1,368	1,795	1,563
Earnings (loss) per share:				
Continuing operations	0.10	0.21	0.28	0.28
Discontinued operations	0.00	0.00	0.00	(0.04)
Net earnings per share	0.10	0.21	0.28	0.24
1991:				
Revenues	\$13,918	\$11,658	\$12,434	\$10,327
Gross margin	2,091	4,487	3,583	1,894
Provision for income taxes	275	1,325	960	307
Net earnings	676	2,227	1,745	443
Net earnings per share	0.10	0.34	0.27	0.07

Independent Auditors' Report

Board of Directors and Stockholders
Sevenson Environmental Services, Inc.
Niagara Falls, New York

We have audited the accompanying consolidated balance sheets of Sevenson Environmental Services, Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sevenson Environmental Services, Inc. and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE

Buffalo, New York
February 5, 1994

Board of Directors**Michael A. Elia**

President and Chief Executive Officer

Arthur A. Elia

Former President and
Chief Executive Officer

Laurence A. Elia

Vice President
President
Sevenson Environmental Ltd.

Richard A. Elia

Executive Vice President

William J. McDermott

Vice President, Chief Financial Officer
and Secretary

Dena M. Armstrong

Treasurer and Assistant Vice President

Joseph J. Castiglia

President and Chief Executive Officer
Pratt & Lambert, Inc.
(paint, industrial coatings and
adhesives manufacturer)

Robert S. Kelso

Former President and
Chief Executive Officer
Calspan Corporation
(an aerospace research and
development company)

Audit Committee**Joseph J. Castiglia**

Robert S. Kelso

Officers**Michael A. Elia**

President and Chief Executive Officer

Richard A. Elia

Executive Vice President

Laurence A. Elia

Vice President

William J. McDermott

Vice President, Chief Financial Officer
and Secretary

Dena M. Armstrong

Treasurer and Assistant Vice President

Paul C. Thomson

Vice President

Mason G. Wheeler

Vice President

Paul J. Hitcho, Ph.D.

Vice President and
Director of Health and Safety

John C. Robbins, P.E.

Vice President

Philip R. DeLuca

Vice President



Pictured left to right: Richard A. Elia, Executive Vice President; Laurence A. Elia, Vice President; Dana M. Armstrong, Treasurer and Assistant Vice President; Michael A. Elia, President and Chief Executive Officer; and William J. McDermott, Vice President, Chief Financial Officer and Secretary.

Notice of Annual Meeting

The Annual Meeting of the Stockholders of Severson Environmental Services, Inc., will be held on Monday, May 23, 1994 at 10:00 a.m. EDT at the Comfort Inn, One Prospect Point, Niagara Falls, New York 14303.

Transfer Agent and Registrar

American Stock Transfer
& Trust Company
40 Wall Street
New York, NY 10005

Headquarters

2749 Lockport Road
Niagara Falls, NY 14302-0396
(716) 284-0431

Offices

Pittsburgh

One Northgate Square
Greensburg, PA 15601
(412) 837-1144

Philadelphia

1200 E. 12th Drive
Chester, PA 19317
(610) 336-7000

Baton Rouge

10040 Highway 101
Livingston, LA 70754
(504) 698-3900

Chicago

9245 Calumet Avenue, Suite 101
Munster, Indiana 46321
(219) 836-0116

Subsidiaries

Severson Industrial Services, Inc.

2749 Lockport Road
Niagara Falls, NY 14302-0396
(716) 284-0431

Severson Environmental Ltd.

2749 Lockport Road
Niagara Falls, NY 14302-0396
(716) 284-0431

Waste Stream Technology Inc.

302 Grote Street
Buffalo, NY 14207
(716) 876-5290

Form 10-K

Single copies of the Company's 1993 Annual Report on Securities and Exchange Commission Form 10-K will be provided without charge to stockholders upon written request directed to the Secretary, Severson Environmental Services, Inc., 2749 Lockport Road, Niagara Falls, New York 14302-0396.

All the paper used in this report is recycled.